November 06, 2023

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai 400001
Scrip Code: 532504

National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex, Bandra (East),
Mumbai 400051
Symbol: NAVINFLUOR EQ

Dear Sir / Madam,

Sub.: Transcript of Earnings Call held for the quarter and half year ended September 30, 2023

Pursuant to Regulation 30 read with Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the Company's Earnings Call held on October 31, 2023 regarding discussion on operational and financial performance of the Company for the Quarter and Half Year ended September 30, 2023 (Q2 & H1 of FY 2023-24) is enclosed herewith.

This intimation is also being made available on the Company's website at www.nfil.in.

Request you to take this intimation on record.

Thanking You,

Yours faithfully,
For **NAVIN FLUORINE INTERNATIONAL LIMITED**
Niraj Bipin Mankad
Digitally signed by Niraj Bipin Mankad
Date: 2023.11.06 14:38:04 +05'30'
Niraj B. Mankad
President Legal and Company Secretary

Encl.: a/a

“Navin Fluorine International Limited

Q2 & H1 FY24 Earnings Conference Call”

October 31, 2023

MANAGEMENT:	**MR. VISHAD MAFATLAL – CHAIRMAN – NAVIN FLUORINE INTERNATIONAL LIMITED** **MR. RADHESH WELLING – MANAGING DIRECTOR – NAVIN FLUORINE INTERNATIONAL LIMITED** **MR. ANISH GANATRA – CHIEF FINANCIAL OFFICER – NAVIN FLUORINE INTERNATIONAL LIMITED**
MODERATOR:	**MR. BHAVYA SHAH – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to Navin Fluorine International Limited Q2 and H1 FY '24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Bhavya Shah from Orient Capital. Thank you, and over to you, sir.

Bhavya Shah: Thank you, and welcome to the Q2 and H1 FY '24 Earnings Conference Call. Today on this call, we have Mr. Vishad Mafatlal, Chairman; Mr. Radhesh Welling, Managing Director; and Mr. Anish Ganatra, Chief Financial Officer of Navin Fluorine International Limited. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinion and expectations as of today. Actual results may differ materially.

These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. Our detailed safe harbour statement is given on Page number two of investor presentation of the company, which has been uploaded on the stock exchange and company's website.

With this, I now hand over the call to Mr. Vishad Mafatlal for his opening remarks. Over to you, sir.

Vishad Mafatlal: Ladies and gentlemen, I would like to welcome you to Q2 and H1 Financial '24 Year's Earnings Call. As we delve into the financial and operational performance of the half year gone by, I'd like to emphasize that our unwavering commitment remains firmly rooted in delivering the utmost value to our stakeholders. Over the past few months, we have intensified our focus on enhancing customer interactions and forging stronger partnerships, initiatives that have already yielded positive results.

As we navigate the complex landscape of our industry, my priorities to the team remain crystal clear. Paramount importance is placed on safety and well-being of our workforce and the operational resilience of our facilities. While continuing to drive efficiency across the organization, we are steadfastly building a robust and diverse business pipeline that positions us for sustainable growth and success in the future.

Our focus is to improve the quality of revenues that is more predictable, diverse and preferably backed by multiyear supply contract. The trust and support from our customers will make our business more resilient and sustainable. We will continue our focus on growth within a strong financial framework, including management of working capital and cash flows.

We are currently working on multiple new projects which will translate into new capex programs and new growth opportunities for Navin Fluorine. We will take these projects to our Board for approval as we complete technical, commercial and financial due diligence. I am currently spending my time and shall continue to do so in meeting with CEOs and senior leadership teams of all key global customers across the three business units.

Our founder late Shri Arvind Bhai foresaw that for Navin Fluorine to succeed across market cycles, trust and inclusion would need to be more than attributes. They remain the pillars of Navin Fluorine's ecosystem. I am pleased to announce that in the commemoration of the centenary birth year of our esteemed founder, Shri Arvind Bhai Mafatlal, the Board has approved a onetime special dividend of INR3 a share in addition to an interim dividend of INR5 per share.

This momentous occasion provides us with a unique opportunity to honour the visionary leader whose dedication and passion laid the foundation for our success. Our founder's unwavering commitment to excellence has guided us through a century of growth and achievement. And this special dividend reflects our gratitude to our shareholders who have supported us on this remarkable journey. We look forward to continuing our founder's legacy of innovation and leadership in the years to come.

With this, now I hand over the call to Radhesh and Anish to provide an update on the operational and financial performance.

Radhesh Welling: Good evening and thank you for attending the earnings call. The revenues and profitability in the quarter Q2 FY '24 were below our expectations. Though our order books across businesses remained strong, our actual production was lower than our planned. Let me take you through the business-wise performance for the quarter.

Our specialty business performance was impacted due to deferment of sales of two products from Q2 to Q3 due to certain production-related issues in the Dahej. On the positive side, we are expected to launch two new molecules from our Dahej plant and three new molecules from Surat facility in the coming quarter.

We are confident, with the strong partnerships and technology platform, we'll continue to deliver innovative offerings to our customers. This business will continue to remain a high-growth business for us in the future as well. Capex of INR30 crores towards development of a completely new capability in Surat is on track and is expected to generate revenue from FY '25. Agro specialty capex in Dahej is also progressing well and is estimated to commission at the end of this financial year.

We have already secured POs covering the dedicated portion of the capacity for calendar year '24. This will contribute significantly to growth in revenues in Specialty starting next year. Our HPP business was impacted due to unexpected breakdown in the plant during June, July at Dahej.

The plant is now operational and is progressively ramping up. We are also working with our partners to further improve and enhance productivity and reliability of the plant. We commissioned our R32 plant in past quarter and stabilized the production by middle of September. This plant is now operational, and our order book remains robust.

We expect the plant to be running to optimal capacity going forward, and we expect to generate sizable revenues from the plant from next quarter onwards. Demand for R22, especially in international markets was muted, and we expect demand to start picking up from end January onwards.

For the non-MSF R22, which is primarily used in pharmaceuticals and agrochemicals segment, the demand continues to remain strong. Our AHF project for adding 40,000 metric tons of hydrofluoric acid capacity in Dahej is progressing well and is as per schedule. Our CDMO business revenues in the last quarter they're all from new molecules.

We see this as a positive sign as our overall product basket in CDMO expands. Detailed engineering of cGMP is as per schedule. In this business, we had to defer significant sales of one campaign from Q2 to Q3 due to last minute change made by the customer in product specification and the method of analysis.

As recently held CPHI in Europe, we launched our new brand, Navin Molecular for our CDMO business. Navin Molecular will help us further sharpen our value proposition to offer a wide range in CDMO services to our customer supporting projects, including non-fluro projects through the clinical phases to commercial and manufacturing. Going forward, all our CDMO business for global pharma innovators will be done under Navin Molecular brand.

I'll now hand over the line to our CFO, Mr. Anish Ganatra to give you a brief on the financial performance of the company. Thank you very much.

Anish Ganatra: Thank you, Radhesh. Good evening to all the participants. Let me brief you on the overall financial performance of the company. Sales during the quarter were impacted largely due to slower stabilization of R32 plant. The progressive ramping up of HPP plant at Dahej, post the June July shutdown, sales of a campaign in CDMO deferred to Q3 FY '24 due to change in product specification and method of analysis, production-related issues in Dahej resulted in deferral of sales of two new products on specialty.

The overall revenue impact of these contributing factors is about INR90 crores to INR100 crores. Adjusting for these factors, our revenue would have been in the range of INR550 crores to INR570 crores for the quarter. EBITDA margins were therefore impacted by lower operating leverage, and we also had one-off cost of approximately INR6 crores due to some corrective measures taken at Dahej plant.

I will now share the highlights of our performance for Q2 FY '24 and first half FY '24, post which we'll be happy to take questions from all of you. For first half FY '24, on a consolidated basis, the company reported revenue from operations of INR963 crores as against INR817 crores in H1 FY '23, a growth of 18% year-on-year.

Operating EBITDA stood at INR213 crores as against INR193 crores in H1 FY '24, up by 10%. Operating EBITDA margin stood at 22.1% as against 23.6% in H1 FY '23, lower by 155 basis points. Operating PBT at INR128 crores for H1 FY '24 as against INR159 crores in H1 FY '23 was lower by 20%. Profit after tax stood at INR122 crores for the first half of the year as against INR132 crores in H1 FY '24, reflecting higher depreciation and finance costs associated with Dahej assets apart from lost sales.

Now coming to the quarterly performance for Q2 FY '24. Company reported growth of 13% in net revenue from operations to INR472 crores against INR419 crores in Q2 FY '23. Operating margin was INR98 crores as against INR94 crores in Q2 FY '23, a growth of 5% year-on-year and EBITDA margin stood at 20.8% for Q2 FY '24. Operating PBT stood at INR54 crores, lower by 25% as compared to the same period last year. PAT stood at INR61 crores for Q2 FY '24 as against INR58 crores in Q2 FY '23.

Net debt at the end of Q2 FY '24 stood at about INR780 crores. Our net debt-to-equity ratio at the end of Q2 FY '24 was about 0.34. Our focused efforts to reduce working capital has helped release about INR275 crores of cash during first half FY '24. We have progressively brought down inventory, accelerated the collection of receivables and continue to work on extending credit terms with our suppliers.

Our cash conversion cycle at the end of H1 FY '24 was about 90 days compared to about 135 days at the end of FY '23. So that is it from my side. We will now open the floor for Q&A. Thank you very much.

Moderator: Thank you very much, sir. We'll take the first question from the line of Mr. Rohit Nagraj from Centrum Broking. Please go ahead.

Rohit Nagraj: Sir, first question is on the CDMO front. So, we had indicated last year that we have a target to reach about $100 million by sometimes FY '26, FY '27. So how do we see the progress going ahead? And what could be the milestones to achieve those -- that $100 million target? Will it be step jump or will it be a gradual increase?

Radhesh Welling: So as far as the target is concerned, we are working towards that right now. It will not be a step jump, so it will not be that one year, we've actually done significantly lower than that in the following year, we suddenly achieve $100 million. It will be a gradual move towards that. At the same time, the business, as we have indicated before as well, will continue to remain lumpy. That's just the nature of the business.

As you all know, about two years back, we started focusing specifically on identifying and developing more late-stage opportunities. And we are actually seeing a lot of success in that particular area. And that is what is giving us additional confidence now that we should be able to directionally achieve that number around the year that you mentioned. It will be difficult for us to specifically project if it will be in one year or other.

But directionally, we should be able to achieve that given the strength of our pipeline, the way we are looking at it.

Rohit Nagraj: Got it, sir. Sir, my second question on Honeywell. So, we had indicated prior that we will be speaking with Honeywell during 2023 for any new opportunities as well as the expansion or doubling capacity for the current Honeywell product. Any new update on the same? And are there any positive indications from Honeywell to give us newer projects over the next foreseeable future?

Radhesh Welling: Yes. Currently, there are a few things that we are discussing. Our engagement is quite deep rooted with Honeywell. There are a few things that we are discussing, but these are basically ongoing discussions. And as we have indicated earlier, our initial focus, especially for this year has to be to stabilize the plant that we have invested in and to ensure that, that starts running to the full capacity. And while we do that, we have identified a few projects to work with them on, on those discussions, both on the technology side as well as on the commercial side are ongoing.

Rohit Nagraj: Just one clarification. When are we expecting to reach optimal utilization on the existing plant with the recent issue?

Radhesh Welling: I think we are -- since we had this issue in June, July, we are progressively ramping the production volume that we are manufacturing from that particular plant. It will be difficult to give a specific target, but we are actually moving positively. For example, in Q3, our production will be more than what we did in Q2. In Q2, our production was more than what we did in Q1. It will be difficult to say as to when we will achieve the full capacity, etc, but we're actually moving in the right direction.

What we don't want to do is suddenly move it to full capacity and then again get into some issues. So, we are actually progressively ramping that up. And as we are doing that, we are also closely interacting with Honeywell to further identify and develop opportunities for enhancing productivity as well as the reliability of the plant.

Moderator: The next question from the line of Mr. Sudarshan Padmanabhan from JM Financial PMS.

Sudarshan Padmanabhan: Sir, I mean, just taking your earlier commentary, introductory commentary about the aspiration of forging more longer-term contracts, one is if you can give a little bit more clarity with respect to if one is looking at the business, the long-term contract gives stability, but lose versatility in the sense that between moving one type of molecule manufacturing to another. So, in your opinion, how much of say two years, three years down the line would be...

Radhesh Welling: Sorry, we lost you. We just heard the starting of that question then after that we lost you.

Sudarshan Padmanabhan: Sir, my question is more on understanding on the long-term contract expiration. So, we have seen a few long-term contracts getting signed. But over a period of time, how much of revenues or scale do you expect -- or do you want from a long-term contract because it is also sacrificing stability for versatility. So, one, on that strategy, what is your thought process?

The second is on the business perspective, I'm not looking at a segment. But as a whole, we're seeing Agri specifically going through a lot more pain. So do we have enough engines on the non-agri side, I'm talking about, say, pharmaceuticals and others to offset the impact, at least in the near term for any weakness, if so, on the agri side.

Radhesh Welling: So, I think as we have indicated before as well, our focus will continue to remain to ensure that our overall business is very diversified as well as very balanced. What I mean by that is that we will continue to focus on businesses which are backed by long-term contracts and then invest in dedicated plants for specific customer for specific products.

We will also have investments done in MPPs, which will make molecules for multiple customers and -- multiple segments. And that is the model we will continue to have. As I have indicated before, if you look at the CDMO business, it's a pure service business. HPP is more of a pure product business. There will be some outliers like the Honeywell project, etc, but that will be more of a product-driven business, whereas Specialty will be a combination of both.

And that is how we actually look at continuing that. Again, on the agri point, as you know, our business is quite diversified. We don't have any agri on the CDMO side. We don't have any agri on the HPP side apart from the small volume of R22 that goes into agrochemicals. Whatever agri business we do is primarily in specialty. And there also, as you know, we have actually started focusing since last year on Performance Materials, where we actually see pretty significant traction.

Again, within agri, as you have seen from our results in Q1 and also the commentary that Anish provided earlier with respect to Q2, we are actually not seeing as much demand -- dip in the demand as some of the other players are seeing even from agri. That is primarily because of the balance that we have between the generic molecules and the newer molecules.

Our newer -- demand for our newer molecules continue to remain very robust. On generic molecules, especially the older ones which we were supplying out of Surat, yes, we have seen certain softness in the demand. So that is the strategy that we have had, and that's the strategy we will continue to be on.

Sudarshan Padmanabhan: One last thing before I run back is, we would continue to go ahead with our capex. I mean, because the demand continues to remain strong. So, there will be no change in the capex, which we have earlier outlined, barring that probably the Agrochemicals gets deferred by a quarter or so?

Radhesh Welling: No. As our chairman indicated in his opening remarks, we are currently evaluating a few projects. But each of the projects will be evaluated on its own merit. And as an when the operating team, first of all, needs to be very confident on the merit of the project, it should qualify and meet our criteria, both the strategic criteria as well as financial criteria.

As it does, then the operating team will present it to the Chairman. And once Chairman approves it, we will take it to the Board. So, nothing changes on that.

Moderator: The next question is from the line of Krishan Parwani from JM Financial.

Krishan Parwani: Just a couple of clarifications. So first, on the debtor days. Your debtor days have come down by 30-odd days. Is there any particular reason? And should we take this as a norm going forward?

Anish Ganatra: So, thanks, Krishan, this is Anish here. On the debtor days, I mean you're right, I mean, it has come down and part of it has got to do with how we are changing our approach towards collection. We are focused on ensuring that the collections happen on -- the credit terms are tighter in the sense that we do not want extended credit.

We're also using innovative programs on vendor financing and customer financing to ensure that the receivables are received because, both our focus on working capital and cash flow is no longer transactional, It's more strategic in nature.

So, to answer your question on whether this is the norm to consider, I would indicate at this stage, while we continue to work on improving this. But at this stage, I would not give any further guidance beyond the 90 days, which I had held even in the last year that I had mentioned on the commentary to our FY '23 that we would target to hit the 90 days cash conversion cycle.

Krishan Parwani: Secondly, on the HPP side, just wanted to check, would we be able to, let's say, recover the lost volumes of HPP in the second half? Is there a possibility?

Radhesh Welling: So, most of that volume that we were -- we had to supply earlier, we will recover the -- I think the real question is, will that be incremental on top of what you would have otherwise delivered in the following quarter? That is little difficult to really ascertain because as you know, all of that is single product, single customers.

So ultimately, the question is what is the total requirement that the customer has currently, if you see, we are limited by the volume that we are producing and not by the demand that we are seeing from our customers.

Krishan Parwani: Noted. Fair point. And the last bit is on the borrowing front. So, our gross borrowings or gross debt has -- is more than INR1,200 crores now. So just wanted to check what is the comfortable level according to you? That's my last question.

Anish Ganatra: So again, if you look at our net debt position, which is the way you should look at in the borrowing sense, it's still INR780 crores, as I mentioned in my commentary, and that has a net debt-to-equity ratio of 0.34 is very comfortable for us. So, we will -- we don't give guidance on this. But essentially, you can see that we have a very strong balance sheet at the moment, with solid sort of cash in hand position as well as a comfortable net debt position.

Moderator: We take the next question from the line of Abhijit from Kotak Securities.

Abhijit Akella: Yes. Just on the Specialty Chemicals business with regard to - these production-related issues that you've highlighted. Could you please share some more colour about what exactly these are about? And does this impact the ramp-up timeframe that we had in mind for this -- for the multipurpose plant when we originally envisaged the project?

Radhesh Welling: Yes. So, I don't want to get into too much technical details. But both of these are new molecules, one which we had earlier done in Surat at very small volume, and we were actually doing the commercial production in MPP. And the other one was a completely new molecule that we were doing for the first time in MPP. We have since resolved the issues. And the production has actually started for both the molecules.

The total quantum of that was approximately INR34 crores between the two molecules. And that sales is actually -- will be deferring from Q2 to Q3. So, both the molecules, the sales of both these will actually happen in Q3. But this is primarily from MPP in Dahej and both of these are new molecules.

Abhijit Akella: Right. And with regard to the ramp-up timeframe that you had in mind for this project, does that sort of remain on track?

Radhesh Welling: You're specifically talking about MPP or which project you're talking about?

Abhijit Akella: For the multipurpose plant?

Radhesh Welling: Yes, multipurpose, you know that we -- earlier when we presented the original plan, it was based on four molecules. We've actually seen the demand softness on one of them, which is the agri product. And hence, we have actually moved very quickly to bring in other new opportunities and put them in MPP. And that is why you're seeing these two new molecules come in, where we have quickly done the development, quickly done the qualification from pilot facility.

And now we're actually doing the commercial production in MPP. But we expect that overall, directionally, it will continue as per the original expectation. It's quite possible that in one molecule, the expectation might be -- lower than the original expectation and some other molecules, it could be higher than the original expectation. But that's just the nature of MPP.

Abhijit Akella: Got it. And just one last thing from my side. With regard to INR540 crores project, agro project at Dahej that's going to be commissioned by the end of this financial year. What percentage of the output is tied up already under the dedicated commitment? And what sort of timeframe should we expect for the full ramp-up of that project?

Radhesh Welling: So, as you might remember that 50% of that production was actually covered under a long-term contract. And the other 50%, we had kept it open to take advantage of the spot pricing. And also there also, we had actually started talking to the customers to possibly cover some of the volume, but that will only happen once the production starts. So that 50% that we've talked about earlier, we've already received the POs for that for 2024. So that 50% is already covered.

Anish Ganatra: Sorry, just to add Abhijit on that one. What Radhesh rightly mentioned, 50% of our dedicated capacity has been covered out, it's still in line with the plan. And the idea was to ramp it up and achieve PAR in about two years after commissioning. So, it doesn't change in that sense.

Moderator: The next question is from the line of Mr. Madhav Marda from Fidelity.

Madhav Marda: My first question was the deferral that we are seeing in Q2 across sub-segments. If I were to look at -- because if it's a deferral, does it goes to Q3 or Q4, for example? Is it fair to assume that the revenue that we had planned for FY '24 as a whole, that doesn't change because of the deferral? Or can we beat capacity constrained because some of our original Q2 production is now happening in Q3 and then that creates a challenge? Just wanted to get your thoughts there.

Radhesh Welling: Yes. I think it will be a little difficult to talk about it on an annualized basis because we're still trying to get handle on the Q4. But specifically with related to Q2 to Q3, most of these sales will actually move to Q3, but the only question is that will all of that be incremental over and above what we would have otherwise done in Q3.

To answer that question, we will have to look at it on a BU-to-BU basis. I earlier talked about on the specialty. On the CDMO, it's about INR18 crores as was indicated earlier. That will be an incremental revenue, it will come in Q3.

But on the other businesses, for example, R32, we lost some because the products -- the plant stabilization took a little longer than we expected. So those -- so that approximately about INR20 crores worth of sales will actually happen in Q3 now. And now the plant is actually running to optimal capacity. So that will get covered in Q3.

So, some of that volume will actually be incremental, but some of that will, as you rightly mentioned, will get constrained because of the overall capacity that we have available. As I mentioned earlier, on the Honeywell project, the volume adjustment that -- the constraint is primarily on the capacity side. So, on some of it, it will be incremental. On some of it, we will be constrained by the capacity.

Madhav Marda: Got it. Understood. And then just on the R32 plant. So, like you mentioned that the order book is robust, and that's good to know. Like are we selling most of it in the domestic market or export? And are we like tying in some of the R32 volumes for CY '24, there's specific customers or this will be sold completely on a spot basis, if you could help us understand that.

Radhesh Welling: Approximately 50-50%. 50% export, 50% domestic. And we are currently in discussion with two customers for potentially tying up our 2024 volumes, and we are actually having pretty good discussions with both of them. Our intention is to at least lock with one of them in the next few weeks.

Madhav Marda: And this would be customer of the export market or in the domestic. It should be exports?

Radhesh Welling: Yes, exports.

Moderator: The next question is from the line of Vivek Rajamani from Morgan Stanley.

Vivek Rajamani: Sorry if this is a bit repetitive. But on the CDMO side, given that you've seen two large molecules being pushed out to CY '24. Could you maybe help us or give a sense of how we should think about the revenue growth for this segment in F '24 and F '25? That was the first question.

Radhesh Welling: No, it's going to be very difficult for us to give that because we are still in conversation with the customers to understand what their requirement for calendar year '24 is. We know that they have actually told us that we will continue to supply them these molecules for the next campaign. And the next campaign is basically moved to FY'24.

But we don't have the answer yet from the customer in terms of exactly what the volume required for these campaigns is going to be. So, it is a little -- I would say a little early. We probably might have a better idea on what the calendar year '24 numbers look like, probably by -- in December, beginning January.

Vivek Rajamani: I completely understand. And the second question was obviously, because of the challenges in this quarter, your EBITDA margins are at about 21%. Could you maybe just give us a sense of the glide path that we should assume for these margins to go back to a bit more normal levels? How do we think about that over the next two quarters or maybe even into next year?

Radhesh Welling: I think let me give some colour and then Anish will follow. See, if you actually look at -- I'm sure you heard Anish's opening commentary, he basically talked about some sales that we unfortunately lost because of supply side constraint in Q2, if we had actually done those sales because all the cost, especially the fixed cost related to those sales were already -- those were already reflected in our P&L. Our EBITDA margin would have been significantly higher than what it was.

Directionally, we have always said that our focus would be continue to actually -- if you -- especially if you look at the new projects that we are undertaking to continuously improve our overall margin profile, there could be quarters when it will be slightly down, there could be quarters when they will be slightly up. But specifically in this quarter, the impact that was seen was primarily because of the operational leverage that we actually didn't have because of the sales that was lost.

Anish Ganatra: Nothing to add. I think you covered it all.

Moderator: The next question from the line of Mr. Sanjesh Jain from ICICI Securities.

Sanjesh Jain: Starting with the bookkeeping one. Can you help us understand what is the capacity utilization for all the three plants, which is Honeywell, MPP and dedicated agro for this quarter?

Radhesh Welling: We have not given out the capacity utilization numbers, and I don't think it will be appropriate for us to do that because a lot of that information is confidential.

Sanjesh Jain: Got it. No, this is just for modelling to tell how the progression will happen for each of this plant, but that's fine. But a follow-up to the -- Radhesh, actually, in your previous call, you mentioned that Honeywell plant has reached the optimal utilization, post the recommissioning. Have we again got into a problem to now come back and look at more gradual than reaching again an optimal utilization?

Radhesh Welling: No, if you see after the shutdown that we had in June and July, we are progressively ramping up the capacity. And so, as I mentioned earlier, our Q2 production was higher than the production in Q1, obviously, because of the shutdown. Our Q3 production is expected to be higher than Q2 production. So, we are progressively ramping it up.

Sanjesh Jain: Got it. And on the -- if I look at Specialty, that is of the export market, which will largely cover our new progression, what we were making. It appears to be quite soft, a dip of 40%. And if I take out the INR20 crores also, what we are talking of supplying in it in the next quarter, it comes to INR110 crores. This is versus INR150 crores in the last quarter. Where are we seeing this difference of INR40 crores on a sequential basis?

Anish Ganatra: So Sanjesh, I think you're referring to the split between domestic and exports in the specialty business, correct?

Sanjesh Jain: Correct, sir.

Anish Ganatra: Yes. So there a large -- one of the molecules which we traditionally export and in the future will continue to export as well. But on the request of customer that was supplied domestically to another -- one of their suppliers and for making another product. So that was about INR40 crores. So roughly, if you kind of look at that, that would change the mix. That would have normally gone as an export, but actually went as domestic supply because of a request from the end customer itself.

Sanjesh Jain: Then it tells that the domestic in a sense has halved quarter-on-quarter in that sense because domestic has only grown INR16 crores quarter-on-quarter, if I remove that INR40 crores, that means there is a 25% sequential fall in specialty. I presume Pharma has been doing well. Performance has been doing well. In fact, domestic, the export has grew -- sorry, what are we missing in the domestic piece?

Anish Ganatra: So, in the pharma world where we had the supplies to pharma agri generics. I think there were two molecules last year, which we have not really had any -- the demand there has been very weak, and that has been clearly materialized in the domestic. But that's two molecules. I don't know what number you're looking at. But in our sense, that was more like about INR15-odd crores.

Sanjesh Jain: So, we lost INR15-odd crores of revenue from those two molecules in the domestic.

Anish Ganatra: Yes, that's right. That's right. And that's largely related to, I think it's -- over there you could look at supply to the ARV sector in pharma.

Sanjesh Jain: Got it. One last question, sorry, and just one more. On the CDMO side, Radhesh, you mentioned that most of the revenue has come from the new molecule. Why the old molecule or the repeat or is it just the lumpiness? Are we cautiously focused on developing more molecules. Can you give more colour on that side?

Radhesh Welling: No, I don't think it is -- I mean, I don't think we can really influence that process, especially on a quarter-to-quarter basis, is really difficult because typically, what happens is on the repeat orders as we have mentioned before, our customers tend to actually operate on a very -- on a campaign basis. And a lot of these customers, especially for molecules, which are scaling up, they typically take a campaign once in two years, etcetera. So, this is not something that we can directly influence.

We consciously try to expand our customer basket, expand the basket of new molecules as well as the opportunity that I earlier talked about, which is basically identifying and developing late-stage molecules. But the timeline as to when we receive the POs for the repeat orders, it's very, very difficult for us to influence.

Sanjesh Jain: So, what you're telling, it is not by design, it has come by coincident and that's healthy for our future opportunity?

Radhesh Welling: Yes, absolutely. And just one thing on the specialty, you know most of our business today is coming from agro. The performance material is actually doing quite well, but the overall impact as a percentage of sales is still limited. And as you know, in Agro, what we really supply is an intermediary, which typically goes to one of the AI manufacturers.

So, though the customers typically remain the same, the consumers can change. Sometimes they might send to the manufacturer of the technical grade in India, sometimes they send -- ask us to send it to a manufacturer of a technical grade overseas, sometimes they ask us to send it to their own manufacturing plant in US or Europe.

So, I think it will be a little difficult for us to look at or compare the export versus domestic mix in our specialty. Of course, in HPP and CDMO, you can. But in Specialty, it becomes a little tricky.

Moderator: The next question is from the line of Siddharth Gadekar from Equirus Securities.

Siddharth Gadekar: Sir, first question is on the HFO debottlenecking. We were supposed to announce the project somewhere in between the second and the third quarter. So where are we on that those timelines? And the second question is on the cGMP-4 plant. When can we expect the announcement for the cGMP-4 plant?

Radhesh Welling: No, I think it's going to be difficult for us to give specific timelines. Both these projects are currently in the pipeline. The discussions are going on. We're currently in the process of having some of the commercial discussions, especially on the Honeywell debottlenecking, but it will be very difficult for us to give specific timeline on either of these two projects.

Moderator: The next question is from the line of Isha from VT Capital.

Isha Agarwal: Sir, my first question is related to speciality chemicals. two quarters back, you had mentioned one of the molecules, which show where the demand was pretty low, but somehow the margin was -- it's a very high-margin molecule. So, any update on that? Are we seeing demand recovery or anything from the customer? Are you worrying?

Radhesh Welling: Yes. That was the agri molecule, I think you are referring to, which we were supplying from Surat, we've actually didn't have much of the demand in the first half. The demand has again come back. We will be supplying -- we supplied some molecules in this particular quarter, and we will continue to supply in the coming quarter. But the good news is that we have actually received a pretty good forecast for the following year for that molecule.

Isha Agarwal: Okay. And sir, another question is related to CDMO. Last quarter, you had mentioned about Fermion agreement. So basically, that particular agreement has three molecules. So, one, the sample was given and rest two molecules were under process. So, can you please update me on that?

Radhesh Welling: So that process is ongoing. And I think some of the work that we are doing there on these molecules also forms the basis for our cGMP-4. So, the work is going on there. It will be difficult for us to give quarter-on-quarter update on each of the molecules. But I think it's safe to assume that we are all eager to move these -- to progress this opportunity with this customer forward because this actually forms a significant basis of our cGMP-4 as well because these are all commercial or close to commercial molecules.

Moderator: We'll take the next question from the line of Jason from IDBI Capital.

Jason Soans: Sir, one of my question was in terms of specialty chemicals. So, what percentage of an intermediates -- as we are supplying intermediates, as you said, especially to the agrochem side, what percentage of the intermediates goes into patented or generic products? Can a ballpark be given for that number?

Radhesh Welling: I think the way we look at our business is whatever we do has to be differentiated, where we have a clear differentiated value proposition. As you know, when we started our business, and we were building up the business, a lot of it was going into generic molecules. A lot of the new opportunities that we have are primarily into the new molecules. It will be difficult for us to give on a quarter-to-quarter basis split between generic and patented molecules.

Jason Soans: Sure, sir. And sir, just a follow-up to that, I wanted to know is, of course, you are talking about being differentiated. I completely understand that's higher up the value chain, and it's synced with your value proposition and your aim to be higher up the value chain. But just would want to understand, for example, in the CDMO business, a certain business gets deferred.

And of course, patented or high-value business will be tougher to crack. And in terms of generic, probably when you're looking at balancing demand in terms of capacity utilization for your plants as well, how do you see that balance play out in terms of your aim to go higher up the value chain?

Radhesh Welling: No. So, see, even when we're talking about generic molecules, these are not typically even those generic molecules. If you see our sales profile, we are all selling it to innovator companies. So, you can see us actually selling any of -- if you see none of our generic molecules are actually going to generic companies, okay So, I think the value that we deliver or the value that our customers see remains the same across -- because ultimately, we are supplying to the same innovator company.

Jason Soans: Sir. And one final question from my side, sir, a lot of our spectrum business will be contracted. And we clearly know that China, in the past six months, they are driving down prices of intermediates, especially in the agchem side. So just wanted to know any structural changes in your contract, there might be some de-escalation clauses, certain criteria like that. In the face of such intense competition coming from China, any structural changes to those contracts? Just your -- any colour on that?

Radhesh Welling: I think these are ongoing discussions that we have, and this is actually not true only for Agri. By the way, it's basically across the businesses, across the segment. This is the same phenomena that is playing on. There are always these conversations going on in terms of how do we actually work with all these key customers that we have to ensure that there is a win-win scenario. So that's just ongoing conversations that we typically continue to have.

Anish Ganatra: If I may add, Jason, our sort of relationship with the customers is strategic in nature, it's not transactional. So, in a sense, one, there is -- if there are conversations like that going on, there are more problem solving and opportunity creation rather than anything else.

Moderator: We'll take the next question from the line of Meet Vora from Emkay Global Financial Services.

Meet Vora: Sorry for harping on this again. With respect to the new dedicated agri pre-sales that we have made, we now estimate that the commissioning will be by end of FY '24 instead of December '23. So, if we can get some colour on the reason for the slight delay that will be helpful. And secondly, you have mentioned that we have received POs for the dedicated portion of the capacity for CY '24.

So just your thoughts on how does this arrangement work with the customers. Is it more contractual in nature in terms of volume tie-ups? Or is it more driven by annual purchase orders that the customers -- meaning are we tied up also for CY '25, '26 for this with the customer? And lastly, your thoughts on how do you see the non-dedicated portion of the demand shaping up for this plant?

Radhesh Welling: Yes. So as far as -- as we have mentioned, almost 50% of that particular project is underlined by one particular customer. As we are going into 2024, we have received confirmed purchase orders for the volume that will be supplied from '24. And that process will continue. As we have indicated, the model is typically as we work on other dedicated projects. But typically, it's a cost-plus pricing model that we employ.

As for the remaining 50%, as we had indicated earlier, and as Anish also mentioned in reference to one of the earlier questions, as we get the plant, our initial focus would be to ensure that we ramp up the production wherein we can supply the full quantity to this customer. And we will also utilize that time to get ourselves qualified with other customers.

And then as we become more comfortable, in further ramping up the volume, we will start having these conversations with other customers to supply to them also. At the same time, we are having conversations with other customers to potentially get into some long-term contracts for the future years with them. But that will happen gradually because what we don't want is suddenly to have all these customers engaging with all the customers for 2024 supply and then positioning us for failure. So, it will happen progressively.

Anish Ganatra: So, Meet, if I may add, the structure of these contracts is typically a take-or-pay. And then each year, you start getting firmer purchase orders. The fact that we have now got to purchase order for next year, is actually pretty solid in that sense.

Meet Vora: Sure. And the second thing we had mentioned in our presentation was that this plant was more for a build block kinds of molecules. So how do we see the derivatives moving there or any plans around that side?

Radhesh Welling: Sorry -- yes. What was your question? we didn't get the start of the question?

Meet Vora: Sir, we had mentioned in our presentation that this plant is more for a building block kind of a molecule. So, we might be having plans to move into derivatives going forward. So, any thoughts around that? Or is it too premature at this point of time?

Radhesh Welling: No, this is an important building block. We will be supplying this molecule to the customers. We also will be utilizing the product ourselves to do some downstream derivatives. Even today, we manufacture and sell a downstream derivative of this to one customer.

With this, we will actually be -- hopefully be able to backward integrate and improve the overall profitability by doing that. And there are certain other opportunities that we have identified by which then we will be able to move downstream and do those downstream derivatives as well. So, all the three possibilities exist.

Meet Vora: And sir, lastly, on the new byproducts that we are planning to launch, two from Dahej and three from Surat. So, all these five molecules will be mapped in the multipurpose plant. So, in the Dahej MPP, going forward we will be doing six molecules instead of five. Is the understanding correct?

Radhesh Welling: No. So, I think we -- as these molecules ramp up, we will look for opportunities for some of them to be mapped in MPP in Surat. Some of them to be mapped in MPP in Dahej. And as these molecules ramp up, there is a possibility that we might require depending on the customer requirements, possibly even a dedicated plant for some of these. But we currently have multiple MPP options. Dahej is not the only option available to us. So, it will be Dahej plus Surat.

Moderator: The next question is from the line of Mr. Ranjit from IIFL Securities.

Ranjit: So, in the opening commentary, you did say that the HF plant is largely on track. So just wanted to hear some comments, how do we plan to utilize it captively probably over the next three years to four years. And what kind of projects we are looking at to kind of consume the HF internally? And second, just an extension to that, how should one see that debt panning out over the next couple of years. We are at around INR1,200-odd crores of gross debt, how should one see that?

Anish Ganatra: Okay. So let me take the gross debt question, first. I mean gross debt, and I mean, I've said this before, we normally don't give forecasts out on debt, etc. I mean our focus always has been to take projects and progress them within a solid financial framework, which we agree with the Board, which covered amongst other things, debt return, commercial, de-risking, etc, yes.

So unfortunately, I won't give the guidance on that going in the future. But it is what it is at the moment. And you just have to look at it as we bring projects for approval and share with you as to where the profile of the company is and the balance sheet and strength is in the balance sheet.

Radhesh Welling: On the HF, I think our commentary remains same as what we had made when we announced the capex. We're looking at three sets of opportunities. One, where we will actually use some of that HF for our own use in existing three projects as those projects scale up, including the current HPP project and the new capex, which will get commissioned next year, etc. There are some new opportunities that we are looking at.

Beyond these three business units, and we are working to develop those opportunities. So that will be the second set of outlet. And the third, given our current constraint on HF, we have significantly reduced our merchant sales of HF. So there also, we are actually continuously seeing very good opportunities. So, a third set of opportunity will be there to increase the merchant sale of HF. So, one will be HF for our existing three BU then HF for our new opportunity beyond the three BU and then for merchant sales.

Ranjit: One bookkeeping question to Anish. We have seen a dip in the employee cost. Is this sustainable on an absolute run rate?

Anish Ganatra: So, if you -- so Ranjit, again, if you adjust the employee cost for the ESOP adjustments, you'll probably find it more or less in similar levels.

Moderator: The next question is from the line of Mr. Nitin Agarwal from DAM Capital.

Nitin Agarwal: On the new project announcements, in the past, we've been -- there'll be a little bit of a lag in terms of we're probably closing out some of the plants that we've had on board. So, is it largely the uncertainty in environment, which is holding us back in terms of closing out some of the divisions? Or are there anything more to sort of read into it?

Radhesh Welling: Actually, give the proper answer to this, right? We are working on opportunities. I think what is important is that we will not pursue growth opportunities just for the sake of it. We will ensure that we need to be, first of all, convinced of those opportunities. And once we are, we will take it to the Board for approval. I think despite what we are seeing in the larger macro environment, we are actually seeing pretty good traction with our key customers. And a lot of these opportunities that we are talking about are primarily with our key customers.

Anish Ganatra: And Nitin, if I may add, the fund raise remains an option. And you probably haven't asked this question. But given that there were several questions on debt levels, etc, I'm just putting that out in the open that the fundraise plan is pretty much in play. The timing, etc, will be a matter for the Chairman and the Board to decide.

Nitin Agarwal: Probably I'll squeeze in a little bit on that. As you mentioned about the macro factors which are there in the landscape. I mean, has it increased the number of opportunities which are available to companies like us? Or with the change in maybe interest cost regime and other things which have been happening, is that the evaluation process that has become a little more tougher? Or evaluation criteria has become more stringent? Or -- is there any difference in the way we've been approaching opportunities in the past, and what we're doing, when looking at them now?

Anish Ganatra: I mean, your voice has been muffling a lot. But if I understood your question, you were actually asking the criteria we use to evaluate projects. Is it in this...

Radhesh Welling: No. I think he's asking whether the opportunity funnel has actually expanded or come down. No, I think the quality of opportunities that we are seeing continue to remain the same. If you basically just ask if the number of opportunities or the inquiries that we were actually getting have definitely come down a bit.

But quality of opportunity remains the same, primarily it's driven by more engagement that we are actually having with some of our key customers. So, the quality of opportunities that we are identifying and developing through this deep engagement with our key customers continues to remain the same for us.

Nitin Agarwal: And Radhesh, just last one on this, with whatever you -- in the past, most of our incremental business which has come through over the last three years or four years has been largely on the partnership mode. The fact that it's not -- and typically, anything to -- any project that we need to put together, typically will take about 18 months to 24 months.

Does it have any implications in terms of the kind of growth that we can have in FY '26 for example? Because a lot of that we're doing right now will probably be largely certified in FY '25? Or I mean, is there a right assessment to make in the first place?

Radhesh Welling: I think, see, if you actually look at the last two-three years, your reading is absolutely right because we really didn't have any extra capacity headroom available because we didn't have Dahej. Now with the Dahej fully operational, we're already having multipurpose plants, etc. And also, we continuously look at opportunities for product rationalization in our MPP in Surat. So currently, we have for immediate quarters or immediate years, we have enough capacity headroom available in form of these new investments as well as the earlier investments made in Surat, etc.

But the ones which the larger opportunities will obviously, as you rightly pointed out, will take about 18 months or so to get converted because that is the typically the investment horizon required to set up dedicated plants, etc. But currently, we don't see any specific constraint because we have enough capacity headroom available in these new investments as well as the earlier investments made in Surat, etc.

Moderator: Ladies and gentlemen, we take the last question for the day from the line of Mr. Bhaskar Chakraborty from Jefferies.

Bhaskar Chakraborty: I wanted to have your thoughts on how you are looking at growth in the Specialty Chemicals business in FY '24.

Radhesh Welling: FY '24 as in current year?

Bhaskar Chakraborty: Yes.

Radhesh Welling: So current year, we've already spelled out. I mean you see the projects that we have already undertaken in Dahej. Those are the ones which will contribute to the growth, and we will, directionally, quarter to quarter, it could move from one quarter to another quarter. But overall, these are the investments which we have made. We have already have got two new plants on the ground in Dahej. Third one now coming up. So that will actually ensure that we see -- continue to see growth in specialty.

Bhaskar Chakraborty: So, I mean, is it comfortable for you to work with a 20% kind of growth estimate in revenues for this fiscal?

Radhesh Welling: No, we typically don't give any specific guidance. I mean we've actually not given any specific guidance in the past. Now in the current scenario, even more difficult because the number of variables, etc, have gone up significantly now. But we typically don't give specific guidance on a quarter to quarter or year-on-year growth.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Anish Ganatra for closing comments. Thank you, and over to you, sir.

Anish Ganatra: I would like to thank everyone for taking the time out and joining on the call today. I hope we've been able to respond to your queries adequately. We look forward to your continued support as we navigate the journey ahead. Wishing you and your loved ones a joyful and prosperous Diwali in advance. May the festival of lights bring you happiness, good health and success. Thank you very much.

Moderator: Thank you. On behalf of Navin Fluorine International Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.